CSP
MAGAZINE FOR CONVENIENCE STORE PEOPLE

Excerpts from a special CSP April 1997 report written by Dick Meyer

A *SPECIAL* State of the Category Report

ToBacco

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In an exclusive preview of his National Advisory Group presentation, Dick Meyer examines the impact of cigarette/tobacco stores and other competitive threats on the c-store and its number one category.

Hey folks, the dike is about to burst wide open and sweep our industry's tobacco profits right along with it, unless we take swift and decisive action now to save our number-one merchandise category.

It's early in the year to be making year-end predictions, but I forecast that by the close of 1997, the gap between the per-store profits of the top 25 percent of c-stores and the bottom 25 percent will be the highest it's been in the last decade.

Right now, the c-store's profits from its number-one merchandise category are under attack from at least five separate forces:

1. FDA and local legislation
2. Cigarette/tobacco stores
3. Native American stores
4. Retailer complacence
5. The pricing dilemma

"If the current trend continues, and the c-store industry reacts too slowly or not at all, CTS locations will control 25% of tobacco sales by the year 2000."

Dick Meyer
C-store Consultant

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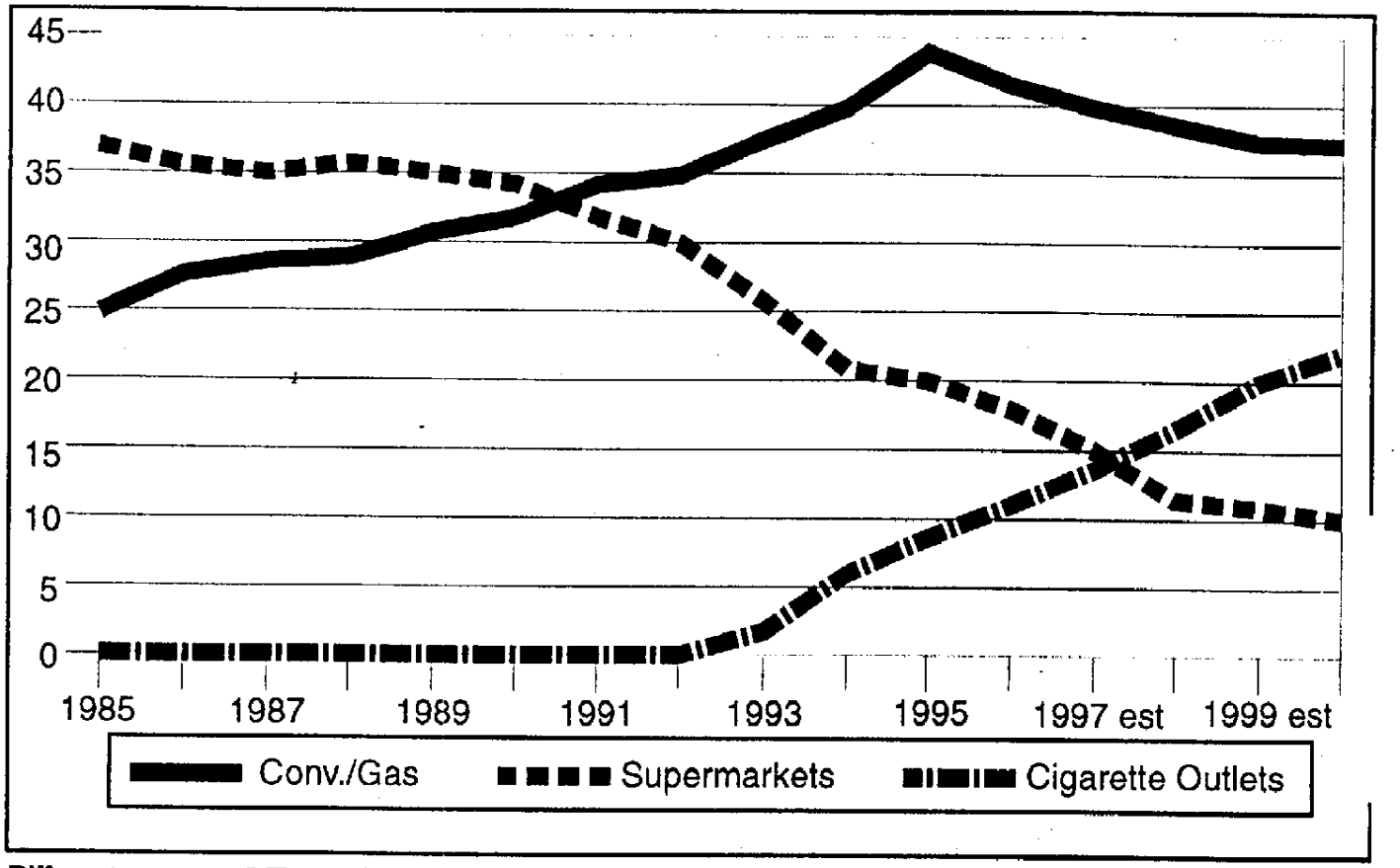
Source: https://www.industrydocuments.ucsf.edu/docs/xlwn0000

Share of Cigarette Industry Volume
Major U.S. Trade Class Trends



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Different concepts? The explosive growth of cigarette/tobacco outlets can probably be attributed to value and volume. These are the same two retailing themes that enabled Walmart to lead the discounters' "massacre" of traditional marketers in the last 20 years.

CTS: MORE OF A THREAT THAN YOU THINK

CTS outlets are not all ugly and they don't all count on walk-in neighborhood traffic. And while a small percentage of these stores prosper because of border pricing, they can pop up in any market – virtually overnight.

Adults-only outlets promote and capitalize on their "smoker friendly" environment, whereas c-stores are cross-examining consumers before they dare sell them a pack of cigarettes – out of fear of selling to minors and getting slapped with a fine or worse. Once tobacco consumers experience the pleasurable difference of buying cigarettes in a non-threatening environment, and discover they can save time, convenience stores can kiss that traffic good-bye.

Several retailers who had "exclusive" RDA agreements with a single cigarette manufacturer have now expanded into arrangements with at least one other company to promote the range of top brands their customers want. Retailers who study raw market share data will be able to quantify what they'll forfeit in traffic and sales by not giving the customer what they want and expect.

If you agree that you'd lose customer traffic by not promoting both Coke and Pepsi and both Bud and Miller, shouldn't you apply the same strategy to cigarettes? This very valid comparison should highlight the need to promote the top full-price and savings brands of cigarettes. For your information, RDAs make up only 15% of average gross profit dollars from tobacco sales in c-stores, yet they seem to be the primary retailer focus for this category. Maybe it's time to re-focus.

As time goes on, smart retailers will continue to take proactive steps to protect their businesses while others accept the consequences of their inaction. I recommend that a discussion of the tobacco category feature prominently on your weekly Executive Committee meeting agenda, at least through the end of the summer. And, if you haven't done it already, maybe your marketing adviser can deliver a "State of Your Company's Cigarette Category" report at next Monday's meeting.

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